GIVING YOU THE POWER

Alberta's New Electric Industry

Power of Choice

A guide to help you, the consumer, better understand customer choice in Alberta's new restructured and competitive electric industry

August 2000

Alberta

RESOURCE DEVELOPMENT

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About the Power of Choice

This guide to customer choice supplements *Power of Competition: A guide to Alberta's new competitive electric industry structure. Power of Competition* is a general guide to the important changes taking place in Alberta's electric industry. It looks at deregulation, what the new electric industry structure means for consumers and municipalities, and how the new system works. This guide – *Power of Choice* – focuses on customer choice in more detail.

Power of Choice looks at the ability that consumers will have to choose the electric retailer that offers them the best combination of price, service and features suitable for their particular needs. It also tries to anticipate and answer questions that consumers may have about the introduction of retail choice.

Power of Choice is designed primarily for Alberta home, farm, and small industrial and commercial consumers who want to understand their options as electric consumers in the new Alberta system and how customer choice works.

Power of Choice first describes the new customer choice structure and its main implications. Sections 1-5 use the question-and-answer format to get into more detail on retail services, electricity rates, the regulated rate option, consumer protection, and affiliated and independent retailers.

Section 6 – Direct Sales is aimed more at industrial customers. *Section 7 – Municipalities* looks at how customer choice affects some of the decisions that municipalities will make in the new customer choice system. *Section 8 – Rural Electrification Associations* looks at the choices that REAs and their members have under the new system.

Appendices A and B define the major players, key terms and concepts used in customer choice.

Additional information about customer choice is available on an easy-to-use website at www.customerchoice.gov.ab.ca

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Introduction – The Power of Choice

Why Choose?

Alberta is restructuring its electric industry to provide an efficient, competitive marketplace for electricity that offers consumers choice and reliability of supply. Experience in other jurisdictions indicates that this kind of change is likely to have a number of beneficial effects:

- Increased competition puts downward pressure on electricity costs and rates, benefiting all consumers.
- Competitive pressures encourage retailers to develop innovative services that customers want.
- Sales are opened to the supplier who can offer the needed goods and services with the best combination of cost, convenience and innovation.
- Consumers are able to make better-informed choices about the way they consume electricity, and potentially save money based on their choices.
- Industry can purchase electricity and services at competitive prices, increasing its ability to compete in worldwide markets and creating jobs and wealth for Albertans.

Steps to Competition

1999 – 2000

- Direct access to energy market for large industrial customers as a pilot program

2001

- Retail services open to competition
- 3-5 year regulated rate option begins for eligible consumers
- Codes of conduct governing affiliate relationships
- Consumer protection provisions
- Monitor development of competitive market

Why Alberta Is Restructuring its Electric Industry

Alberta's new system is designed to give electric consumers the power to make their own choices. It replaces a system in which customers could only take service from a particular utility, depending on where they were located. Customers dealt exclusively with that utility for their power needs and services. In the absence of competition, a regulator had to set prices and approve capital investment decisions. The Alberta Energy and Utilities Board (EUB) and municipal governments approved rates that allowed the utilities to recover their investments and their operating costs in addition to earning a reasonable return on their investment.

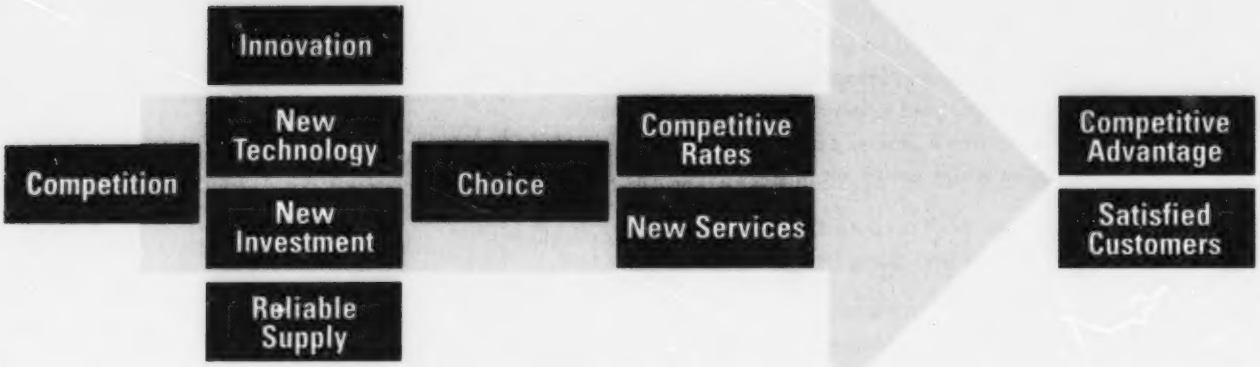
This system could not be fully responsive to forces of change around the world. Other jurisdictions were talking about developing more responsive, efficient, flexible systems – and Alberta risked falling behind. In addition, regulatory costs in Alberta were high for both government and industry – and these costs were reflected in the rates that consumers paid. The long hearing process also hindered the industry's ability to be responsive to market changes.

Starting in 1990, these concerns were the subject of intense discussions involving government, utilities, consumer groups and industry.

This process resulted in the passage of the Electric Utilities Act in 1995 as the first step in the transformation of Alberta's electric industry and the introduction of competition for the benefit of consumers across the province. The next step was the passage of the Electric Utilities Amendment Act, 1998.

This orderly process is continuing with the development of regulations setting out specific rules, roles and responsibilities under the acts. Together, these acts and associated regulations provide the framework for the new competitive electric industry structure, including the customer choice options described in this document.

How the New Marketplace Affects You



Electric industry restructuring is based on an important principle. The principle is that opening the marketplace to competition forces both the wholesale generation sector and the retail sector to become more efficient, cost-effective and creative. Competition means that new businesses arise to compete with existing businesses. In seeking market advantage, companies strive to design and offer at competitive prices the products and services that their potential customers really want.

New products and services that are likely to be developed under this new competitive structure are described in Section 1 – Retail Services.

Customer Choice Principles

- Consumers have a choice over what retail services they wish to purchase and a choice about who will supply those services.
- Competition is introduced in a manner that allows for orderly development of the market.
- While the retail market is developing, eligible consumers may choose a regulated rate option from their existing supplier, starting January 1, 2001. The rate is offered for three years for eligible small industrial and commercial consumers, and five years for home and farm consumers.
- Independent companies are able to compete with traditional utility suppliers to provide retail services to customers.
- Markets for retail services are shaped solely by competitive forces.
- A level playing field for all participants fosters open competition.
- No participant has an unfair competitive advantage that could arise solely from its established position in the industry, access to historical information or ownership by a municipal government.
- Access to local wires is available to all retailers at non-discriminatory prices.
- Existing distribution utilities are responsible for continuing to provide connections to consumers, as well as building, maintaining and operating the local wire distribution system.

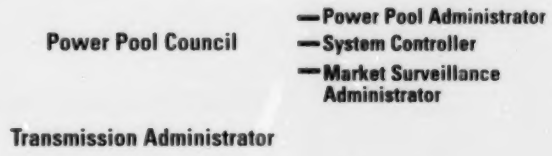
How You Are Protected as a Consumer

Retailers offering services to home, farm and small industrial and commercial consumers will be licensed. Strict rules will govern retailers' relationships with these consumers and access to private information. This will help protect consumers against misleading advertising or deceptive market practices.

Your choice of retailer will not affect the reliability of the service you receive. Power will continue to be distributed to all Alberta consumers from the same electricity grid over the same sets of wires, no matter what retailer they choose. The transmission system and local distribution systems remain regulated. Power will continue to be delivered to consumers at a local level on lines owned by municipalities, utilities and rural electrification associations.

Several independent entities protect the interests of consumers by ensuring that the system is reliable and the market functions properly. These include the Power Pool Council, the Market Surveillance Administrator and the Transmission Administrator *(see Appendix A)*. Alberta Government Services also works to foster a fair marketplace by providing timely, effective enforcement mechanisms to deter dishonest market practices, and encourage consumer awareness and self reliance. The Alberta Energy and Utilities Board, city councils and the boards of rural electrification associations continue to protect consumers' interests by overseeing these regulated systems.

Independent Market Operators



Fair Competition

The new system is designed so that all participants in the competitive retail market play by the same rules. This helps to ensure full and open competition for the benefit of consumers. In this way, the market for retail services is shaped by competitive forces.

No participant has an unfair competitive advantage that could arise solely from its established position in the industry, access to historical information or ownership by a municipal government. The playing field must be level for all participants.

What's New About the Marketplace?

Before the Changes

In the regulated marketplace, consumers had no choice about who supplied their electricity.

Electricity rates were reviewed and approved by the regulators. Utilities and other participants spent a lot of money and time preparing for hearings. Regulatory costs were passed on to Alberta consumers.

After the Changes

Starting January 1, 2001, consumers can begin receiving power from the electricity retailer that offers them the best services and prices.

The transmission system and local distribution systems remain regulated. Any retailer can use the distribution wires to provide electricity to consumers anywhere in Alberta.

All retailers must register with the Department of Resource Development. Retailers serving home, farm and small industrial and commercial customers who are eligible for the regulated rate option will be licensed, bonded and subject to consumer protection provisions. Consumer protection provisions will apply equally to those choosing the retail market and those taking the regulated rate option.

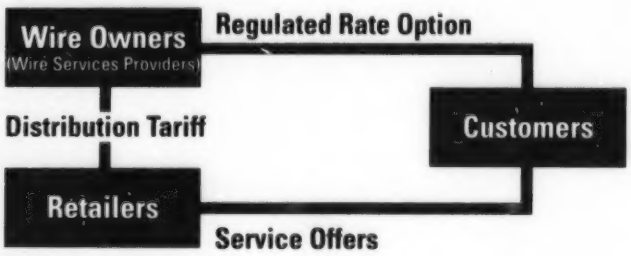
Regulatory costs will be reduced. Prices for electricity will be determined by open competition among retailers. Competition tends to put downward pressure on prices and provides incentives for innovation and conservation.

Getting Ready for 'Choice'

In the new system, consumers can choose the retailer that offers them the best combination of price, services and features suitable for their particular needs. *See Section 1.* Alternatively, eligible consumers can take the regulated rate option from their local utility distributor while the competitive market is developing. *See Section 3.*

These changes have implications for utilities, municipalities and rural electrical associations (REAs) that own electric distribution systems and for municipalities that franchise their territories to others.

Wire owners need to set distribution tariffs for retailers selling electricity to customers in their service areas since their wires operate as a "common carrier" for electricity – no matter which retailer buys and sells the power that is transmitted on the wires. They must also provide metering, wholesale billing and customer information systems.



Wire owners such as municipalities and rural electrification associations need to decide whether to provide wire services themselves or contract with other entities for the job.

Wire owners are responsible for maintaining and operating their wires and offering consumers the regulated rate option. They may authorize wire services providers to perform some or all of these jobs for them.

Wire owners must set up arms-length retail affiliates if they want to participate in the retail market and compete with independent retailers. These affiliates will be governed by a code of conduct so that they have no unfair advantages or disadvantages in competing with new independent retailers. Municipalities that set up retail affiliates to compete for customers must pay an amount in lieu of income tax on their retail operations.

Municipalities will have the right to collect franchise revenue from the utilities that provide, build, maintain and operate the distribution systems for their residents, just as they do now. (The utilities in turn earn revenue from the consumers they serve.) This source of revenue for municipalities is not expected to be affected by the changes.

Questions and Answers about Customer Choice

Section 1 - Retail Sales

Starting in 2001, firms will compete to provide retail electricity services to consumers. In this system, any qualified retailer can purchase electricity and sell it to consumers in Alberta. This opens retail sales to the lowest-cost supplier and works to ensure that costs are minimized and efficiency is encouraged.

Q How will I shop for electricity?

A You can shop for electricity the same way you shop for other products and services. You can compare the rates, service packages and other features offered by retailers and make your choice based on what best meets your needs.

For additional information, see the brochure "How to Shop for Electricity" that is available from Alberta Resource Development at the address or website listed on the back cover. A list of licensed retailers will be added to the website as the market develops.

You may choose from among these retailers for service that starts on January 1, 2001 when the competitive retail market for electricity opens.

Eligible consumers may also choose the regulated rate option that will be offered through the owners of distribution systems. This option is designed for consumers who want more time to become familiar with the competitive market. Like retail competition, the option will start on January 1, 2001. It will run for three years (until the end of 2003) for eligible small industrial and commercial consumers and five years (until the end of 2005) for home and farm consumers. *See Section 3 for details.*

Medicine Hat's System

The City of Medicine Hat is not required to participate in the customer choice system described in this document. For historical reasons, Medicine Hat developed an independent electric power system.

Consumers may decide to leave the regulated rate option during the three- to five-year period and purchase their electricity and related services in the open market by choosing among competing retailers. Terms and conditions for leaving the option will be set by your local distribution company or provider of the regulated rate. They must be approved by the regulator that oversees these entities.

No matter what retailer or option you choose, power will be delivered to you on the existing wires leading to your home or business and through the high-voltage grid of transmission lines. These local wires and the transmission grid remain regulated.

Q What kind of choices will I be able to make?

A Retailers will work to attract customers by developing the products and services that Albertans really want. Based on experience in other jurisdictions and early indications within Alberta, these products and services are likely to include:

- Green power options such as electricity from wind power and biomass for consumers who wish to support such environmentally friendly means of generation.
- Time-of-use meters or interval meters that will enable consumers to be billed at one rate during peak hours and a lower rate during off-peak hours. Power bills that show the split between peak and non-peak hours will make it easier for consumers to evaluate their energy consumption habits. Armed with this information, consumers can decide whether they would like to change their consumption patterns. Under this system,

consumers can potentially save money by operating equipment or appliances during non-peak hours when the rate they pay may be lower.

- A flexible payment date based on what is most convenient for an individual household or business.
- A "one-stop" combination of services in a single package that could include electricity, natural gas service, telephone, credit and other options.
- Other innovative rate packages that may include:
  - Systems for "smart houses" where designated appliances are turned off during peak price times.
  - Lower rates for consumers able to receive interruptible service – such consumers could save money according to the level of reliability they would like to receive.

Q How can I evaluate the different offers made by competing retailers?

A As markets develop, retailers will make potential customers aware of their services and products, just as retailers do in other competitive markets. The Government of Alberta will provide consumers with basic information, such as a guide on how to shop for electricity, to help them assess their options.

Q What's the role of retailers?

A Retailers will sign up customers and sell electricity to them. They must maintain records and accounts of these customers.

Retailers will invoice their customers for the electricity and any other services provided based on the agreed-upon rates.

Retailers will obtain power matching the needs of their customers through the Power Pool of Alberta, a market for the exchange of electricity. They may also buy directly from independent power producers or from other firms that buy and sell electricity.

Retailers will not maintain the local distribution system, or physically hook up or disconnect customers to the system. Local distribution companies (wire owners or authorized wire services providers) will perform these functions. *See Appendix A.* Retailers will refer customers to the local distribution company as the primary contact for service calls. Retailers may request that local distribution companies disconnect service to customers that haven't paid their bills, just as happens today.

Q What if I don't make a choice next year? Will my power be cut off?

A Consumers will not have their power cut off if they don't choose a retailer.

If consumers who are eligible for the regulated rate option don't make a selection after being advised of their choices in 2000, service will be continued through arrangements with their existing supplier of power when the new system starts on January 1, 2001. This service will be provided under the regulated rate option, which is similar to the way power is provided under the existing system. *See Section 3.* Customers will still have the option of switching to the competitive retail market when they are ready.

Regulations will cover industrial and commercial consumers who are not eligible for the regulated rate and who have not selected a retailer by January 1, 2001. Local distribution companies (wire owners or authorized wire services providers) will arrange for a retailer to provide them with service if they have not made a choice by January 1, 2001.

Q What questions should consumers ask when shopping for electricity?

A Consumers may benefit by looking beyond retailers' advertising and promotions and asking some or all of the following key questions:

- Is the retailer licensed and bonded? *(See Section 4 for more information on consumer protection.)*
- What are the terms of the agreement such as any fixed charges, the rate per kilowatt-hour (kWh) or any other charges, and billing options?
- What will be the total cost of my bill? Will the price vary? Why?
- If I want to change retailers, are there any costs or termination fees?
- How long is the agreement for? Is there a minimum length, or a maximum length?
- Am I buying anything other than electricity?
- What happens to my agreement if I move?
- How long do I have to change my mind after signing the agreement?
- Can I purchase electricity produced from renewable energy sources such as the wind? What does this option cost?

- Can my distribution utility sell me a time-of-use or interval meter? How much would this cost? How can it save me money?
- Does the retailer offer other services to help me use energy more efficiently?
- Who do I call if I have a question and want to discuss my bill?
- Who do I call if I have a problem with electricity service?

Will large customers benefit at the expense of small customers?

A No. Retailers competing for small customers will face the same competitive pressures to keep costs low as those competing for large customers. Small customers will also have a regulated rate option to help them make the transition to a competitive market.

Can retailers offer "green power?"

A Yes. The new electric industry structure helps to open up markets for green power or renewable energy. These include wind power, small hydro, landfill gas and biomass sources. All electricity generators have equal opportunity in the new generation market. Green power producers are enthusiastic supporters of the new industry structure.

In anticipation of retail competition, retailers in Alberta have already started to offer consumers green power packages that include power from wind generation and biomass.

In addition, the new deregulated electric industry structure is expected to bring other environmental benefits to Alberta. The new structure encourages cogeneration – the simultaneous production of electricity and useful heat – at industrial plants. This very efficient process tends to reduce the overall amount of fossil fuels that are burned to generate electricity throughout the province.

Encouraging Green Power

- "Green power" – wind, hydro, biomass, solar and waste energy – retailer collects green power charge and pays directly to a green power generator
- Consumer awareness and conservation

- Positive impacts on regional/local air quality
- Reduced greenhouse gas emissions

The new electric industry structure and the development of efficient micro-turbines also encourage use of flare gas in the generation of electricity. Flare gas is a by-product of the oil and gas industry and a concern for air quality. This increases the power available to Albertans and helps to reduce greenhouse gas emissions.

What are Distribution Tariffs?

A Under the new system, retailers will compete to offer consumers electric services. In providing these services, they will use distribution wires within the service territories of the wire owners. Municipalities and other wire owners will charge these retailers according to their Distribution Tariff.

Distribution Tariffs are intended to recover the costs of access to the transmission and distribution systems. This includes costs associated with wires, billing, metering and information systems. The transmission and distribution systems remain regulated.

ATCO Electric and TransAlta Utilities[1] must prepare distribution tariffs or negotiate a settlement with potential retailers and file the tariff for approval by the EUB. Municipalities, rural electrification associations and other wire owners must prepare distribution tariffs and file them for information with the EUB. Municipalities and REAs may choose to file their tariffs with the EUB for approval, if they wish. The tariffs take effect on January 1, 2001, when retail competition is introduced.

[1] At the time of publication, TransAlta had received approval from the Alberta Energy and Utilities Board to sell its distribution business to UtiliCorp Canada Corp. The completion of the sale by the two companies is pending.

Q Where can I get more information about the new retail structure?

A More information about the new retail structure is available on the Customer Choice website:
www.customerchoice.gov.ab.ca

The Electricity web pages at the Alberta Department of Resource Development (www.resdev.gov.ab.ca/electric) contain a wide range of general and technical information about the new retail structure and how it affects consumers.

If you don't have access to the Internet, you can contact Alberta Resource Development at the address and phone numbers listed on the back cover to obtain a copy of *"Power of Competition – A guide to Alberta's new competitive electric industry structure"* as well as consumer leaflets. You can also contact your current electric utility for more information.

Acts and regulations are available on-line at www.gov.ab.ca/qp

Copies of the *Electric Utilities Act* and associated regulations are available from the Queen's Printer bookstores in Edmonton and Calgary:

11510 Kingsway Avenue
Edmonton, AB T5G 2Y5
Phone (780) 427-4952
Fax (780) 452-0668

Main Floor, McDougall Centre
455 – 6th Street S.W.
Calgary, AB T2P 4E8
Phone (403) 297-6251
Fax (403) 297-8450

Other useful web sites

Alberta

Alberta Energy and Utilities Board	**www.eub.gov.ab.ca**
ATCO Electric	**www.atcoelectric.com**
EPCOR	**www.epcor-group.com**
ENMAX	**www.enmax.com**
Lethbridge Power	**www.city.lethbridge.ab.ca/profile/06.htm**
Power Pool of Alberta	**www.powerpool.ab.ca**
Red Deer Electric Light and Power	**www.city.red-deer.ab.ca/cityservices/cityservicesindex.html**
TransAlta Utilities Ltd.	**www.transalta.com**
Transmission Administrator (ESBI)	**www.eal.ab.ca**

Other Jurisdictions

Western Systems Co-ordinating Council	**www.wscc.com**
Montana Power	**www.mtpower.com/customerchoice/**
Pacific Gas and Electric	**www.pge.com/whats_new/issues/electric_restructuring/resource/**
Pennsylvania Customer Choice	**www.electrichoice.com**

Section 2 - Your Electricity Rates

No one can say for sure what electricity rates will be in the future, with or without competition, just as no one can guarantee what will happen to interest rates or the stock market. But the new electricity structure introduces a number of forces that will improve efficiencies, enhance innovation and put downward pressure on prices.

For that reason, prices are expected to be lower over the long term than they would have been under a regulated system. As shown below, this has happened in virtually every jurisdiction that has introduced retail competition in electricity markets.

In addition, funds in the balancing pool (see below) will be allocated to consumers.

Q What is the balancing pool?

A The balancing pool is a financial account administered by the Power Pool of Alberta. It is designed to ensure that the costs and benefits of existing generating units built under regulation (before 1995) continue to be shared among Albertans.

Funds in the balancing pool will be passed on to all consumers in a manner to be determined by government policy. More information on the balancing pool is available at www.resdev.ab.ca/electric.

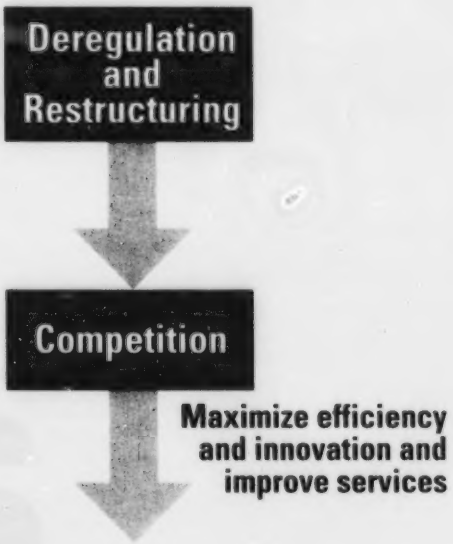
Q How will the new electricity structure affect prices?

A It is expected that Alberta's rates will be more competitive than they would have been under regulation and monopoly markets.

Prices for electricity will be determined by open competition among retailers. Retailers must work to offer the products and services their customers really want – at competitive prices.

Deregulation will also influence prices by reducing the high regulatory costs that were reflected on customers' power bills under the old system. Under that system, utilities and other industry participants had to spend a lot of time and millions of dollars preparing for hearings. These costs were passed on to Alberta consumers.

The prices that consumers pay will also be influenced by the cost of generating electricity. Competition in the generation market that is being deregulated in parallel with the retail market means that firms must strive to be more efficient and innovative so they can produce electricity at the lowest possible cost.



Competitive Prices

Although no one can say for certain what prices will be in the future, all these factors are expected to put downward pressure on the prices that consumers pay for electricity. This means prices in the long-term are expected to be lower than they would have been under a regulated system. This is supported by evidence from other jurisdictions that have deregulated their electric industries.[2]

[2]Sources:

Australia: Electricity Supply Association of Australia
www.esaa.com.au/data.htm

"The changing structure of the Electric Power Industry."
1998, US Dept of Energy:
www.eia.doe.gov/cneaf/electricity/chg_str_issu/chg_str_iss_rpt/toc.html

"A Power of Good: The Verdict on Electricity Privatization"
– Adam Smith Institute 1996 (UK)

"Economic Development and Customer Choice: Lessons for the Electric Industry," Robert Crandall, Jerry Ellig, Mercatus Center: www.mercatus.org

How has deregulation affected consumers' rates in other industries?

Deregulation has tended to lower prices and improve services for consumers in other formerly regulated industries. A 1997 study by the Mercatus Center at George Mason University in Washington, D.C. looked at the impact of deregulation in five industries in the U.S.: natural gas, telecommunications, airlines, trucking and railroads.

The study found that in each of the five industries prices paid by consumers fell significantly following the introduction of deregulation. Although the study determined that not all the price reductions resulted wholly from deregulation, it found that regulatory reform created billions of dollars worth of consumer benefits. It concluded that consumers gained not just because of the rate reductions but also because of improvements in the quality of service.

The study, conducted by Robert Crandall, senior fellow in the Economic Studies Program at the Brookings Institution, and Jerry Ellig, senior research fellow at the Mercatus Center, led to a number of findings:

- "Deregulation and customer choice lower prices."
- "Deregulation and customer choice align service quality with customer desires."
- "Customers have experienced genuine benefits, not just reallocation of costs among customer classes."
- "The lower the barriers to customer choice, the greater benefits customers receive."
- "Competitive markets continue to evolve in response to consumer needs."

Won't consumers pay more for electricity if retailers can charge any rates they want?

No. Competition in the electricity market will work the same as in other retail markets. Companies design competitive packages of rates and services to meet the needs of consumers. Consumers are able to choose the lowest-cost supplier that meets their needs. In a competitive market, retailers that try to charge higher rates tend to lose business in favour of retailers offering lower rates or better service. This keeps downward pressure on rates as retailers strive for competitive advantage.

Will there be extra charges or problems if one entity owns the wires and another provides the power?

No. Wires remain a common carrier for electricity, no matter who you contract with to provide your electricity service. The delivery of electricity will remain regulated in this new system, as it is not practical to have more than one set of power lines.

An independent Transmission Administrator ensures fair access to the transmission system to buyers and sellers of electricity. The Transmission Administrator also ensures the system is run economically and reliably in the interest of Alberta consumers. Rates for the transmission system will continue to be approved by the Alberta Energy and Utilities Board.

Will prices go up because we have to pay for the wires?

No. The electricity bills that consumers pay have always reflected the cost of the transmission and distribution systems. The introduction of competition in the generation and retail structure is not expected to affect these wire costs. The transmission and distribution systems remain regulated and will operate in the same way as before.

Section 3 - Regulated Rate Option

The regulated rate option provides a regulated rate for eligible consumers who are not yet ready to make the transition to the new competitive market for electricity and related services. That market opens for all consumers on January 1, 2001. Eligible small industrial and commercial consumers will have up to three years (to the end of 2003), and home and farm consumers up to five years (to the end of 2005) to become more familiar with the competitive market. In most circumstances, these consumers can simply continue to buy electricity and related services through their existing distribution utility.

How will rates under the option compare with competitive rates?

The regulated rate option is designed to give small consumers time to become familiar with the new marketplace. The regulated rate option will include the costs of energy, transmission and distribution and the cost of billing regulated rate customers.

Outside the regulated rate option, retailers will offer competitive prices for electricity and other services. These rates will be determined by open competition among retailers.

It is therefore impossible to determine in advance exactly how the regulated rate will compare with the competitive rates offered by retailers.

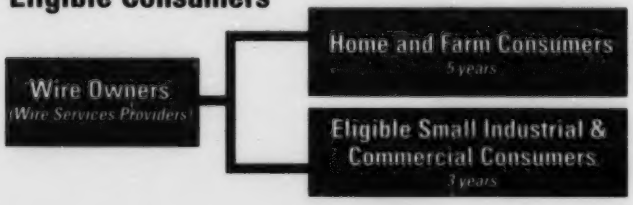
Who will be eligible to receive a regulated rate?

Home, farm and many small industrial and commercial consumers will be eligible. The option is available to about 85 per cent of Alberta's electricity consumers. Industrial and commercial customers with annual consumption of less than 250,000 kilowatt hours (kWh) will also be eligible.

Industrial and commercial customers with consumption of more than 250,000 kWh will not be eligible.

These larger consumers tend to be familiar with analyzing choices to minimize their business expenses. Some of these consumers already have experience in making decisions about their power needs based on information obtained from time-of-use meters.

Regulated Rate Provided to Eligible Consumers



Who will provide the regulated rate?

Local distribution companies (wire owners or authorized wire services providers) are responsible for providing the regulated rate option to eligible consumers. Depending on where a customer lives, this may be an investor-owned utility, a municipally owned system or a rural electrification association. They will advise consumers about the regulated rate option in 2000.

How will the regulated rate be determined?

The regulated rate will be determined in much the same way as current regulated power rates. Owners of distribution systems will file their rate applications for approval by the appropriate regulatory authority:

- Investor-owned utilities (TransAlta and ATCO Electric) must file their regulated rate with the Alberta Energy and Utilities Board (EUB) for approval.
- Municipal wire owners will file for approval with their municipal council. (They could also file with the EUB if they prefer.) For example, Calgary City Council currently approves the rates for ENMAX. The Council will also be able to approve the regulated rate.
- Boards of directors of rural electrification associations will be responsible for approval of their REAs' regulated rate options.

The rates, which may vary among providers, will be based on a number of factors. These may include the forecast cost of purchasing energy from the competitive market, plus the cost of protecting the regulated rate provider against variations in the price of electricity. The rates will also include the cost of access to the transmission (high voltage) and distribution (local delivery) systems, plus retail service costs, including marketing, accounting and billing. These costs have been traditionally accounted for in Alberta's rate structure.

Can customers leave the regulated rate before the end of 2005?

Yes. Customers may decide to leave the option and purchase their electricity and related services in the open market by choosing among competing retailers. The regulator will specify the timing and required notice period for customers to leave the option without penalty. Your regulated rate option provider will advise you about these terms and conditions. The terms can vary, depending on the provider.

What happens when the regulated rate option ends?

The competitive retail marketplace for electricity and related services is expected to be fully developed by the time the regulated rate option ends on December 31, 2005. This market is expected to offer the following features:

- A wide range of choices from competing retail suppliers of electricity and related services.
- New packages that include rates for consumers who want fixed, longer terms.
- Continued downward pressure on costs and rates for all consumers, whatever choices they make.

Section 4 – Consumer Protection

Retailers marketing electricity services to home, farm and eligible small industrial and commercial customers will be licensed. This ensures that retailers are accountable to their customers. It enables consumers to determine which firms are legitimate and authorized providers of electricity services.

Will my electric service be reliable?

No matter who provides your electricity, you will receive the same high-quality distribution and power restoration services from Alberta's transmission and distribution providers. These services remain regulated. Power will continue to be delivered to consumers at a local level on lines owned by municipalities, utilities and rural electrification associations.

In addition, Alberta has independent entities to protect the interests of consumers and ensure system reliability and the proper functioning of the electricity market. These include the Power Pool of Alberta, the Market Surveillance Administrator and the Transmission Administrator. *See Appendix A.*

How Customers Are Protected

- **Licensing and Bonding of Retailers**
- **Codes of Conduct**
- **Performance Security Requirements**
- **Independent Power Pool**
- **Independent Market Surveillance Administrator**
- **Independent Transmission Administrator**

How will I be protected in the new marketplace?

Consumers will be safeguarded against unfair marketing and trade practices through consumer protection provisions governing the behaviour of retailers that market directly to home, farm and small industrial and commercial consumers. The provisions will be designed to ensure that these retailers deal with customers in a truthful and ethical manner. The provisions will ensure that customers' interests are protected by requiring that retailers:

- Clearly identify themselves as licensed retail representatives.
- Not exert undue pressure on customers.
- Provide accurate and up-to-date information about prices and services.
- Inform consumers about potential future changes to prices and services.

A performance security requirement, such as bonding, will protect both consumers and other entities in the event that a retailer is unable to meet its financial obligations or fulfil its agreements to provide retail services. This ensures that consumers can be financially compensated if a retailer fails to deliver services already paid for by consumers.

All retailers marketing directly to these consumers will be subject to the same bonding requirements. Local distribution companies (wire owners or authorized wire services providers) offering the regulated rate option do not need to be bonded because they are subject to the regulatory process that examines and tests financial viability.

Is enough new power generation being built to meet future needs?

Yes. About 850 megawatts (MW) of new power supply came on stream across Alberta in 1999 – enough power to light up another city almost the size of Calgary. Projects totalling more than 2,500 MW are under construction or in various stages of development and commissioning with estimated completion dates spread over the next four years. That new supply more than matches the growth in demand projected for Alberta.

Changes in Alberta's electricity industry allow companies to build new generation plants in response to market opportunities. This marketplace encourages innovation and the use of efficient new technologies such as wind power, cogeneration and micro-turbines using flare gas.

Who do I contact if I have a complaint or concern?

Many consumer complaints that arise in the electricity service market may be similar to everyday complaints that occur in other markets. For example, complaints may arise over bills that retailers provide to consumers. Consumers should address these complaints directly to the retailers responsible for their billing and customer service. Retailers must provide a contact number on the bills they send to consumers. Retailers are obliged to address these customer complaints in accordance with their codes of conduct.

Who do I call if there is a power outage?

Power outages occur for a number of reasons from storms to accidents. If there is a power outage or some safety problem related to the wires or the distribution system, call your local distribution company (wire owner or authorized wire services provider) – just as you would today. The number for "power troubles" may be listed near the front of your local telephone directory along with emergency numbers. Your retailer will also direct customers making such calls to the distribution company. Any other service questions or concerns should be directed to your retailer or your current supplier of electricity if you've decided to go with the regulated rate option for now.

How will bad-debt customers be treated?

The terms and conditions for dealing with bad-debt customers are not expected to be any different under retail competition than under regulated service.

Under the Electric Utilities Act, retailers are obligated to make a reasonable effort to seek payment from customers before discontinuing electricity service to them. Procedures approved by the wire service provider's regulator will define the terms and conditions under which service may be disconnected. These terms and conditions will apply to all retailers, including those offering the regulated rate option.

Section 5 - Affiliated and Independent Retailers

Alberta's new electric industry structure opens retail competition to any retailer. These retailers may be independent entities or affiliates of existing owners of electric distribution systems. (See Appendix A for detailed definitions.) The new electric system is designed to ensure that these two types of retailers compete on a level playing field. This ensures a fully competitive marketplace where retailers strive to gain advantages by being more efficient.

Q Why must wire owners create retail affiliates to compete for customers?

A Owners of distribution systems that wish to compete for customers must form arms-length affiliates. A code of conduct for the affiliates will ensure that the affiliates do not have unfair access to customer information or business decisions concerning the distribution system that other retailers would not have. This will help to ensure a level playing field for all participants in the new marketplace.

Q How will independent retailers get the information they need to compete for customers?

A Independent retailers need sufficient access to information so they can compete with existing industry participants on a level playing field. Regulations will specify what information utility companies must pass along to retailers, as well as to customers. Customer information, such as historical electricity usage, names and addresses, cannot be released without the customer's consent.

Q How will I know which retailer to choose?

A You can choose the retailer that offers you the best prices and the services that best meet your needs. Or, as explained in Section 3, eligible consumers can choose the regulated rate option while the retail market is developing.

No matter who provides your electricity, you will receive the same high-quality distribution and power restoration services from the transmission providers and the owners of electric distribution systems. Transmission and local distribution remain regulated. In addition, Alberta has independent entities to protect the interests of consumers and ensure system reliability and the proper functioning of the market.

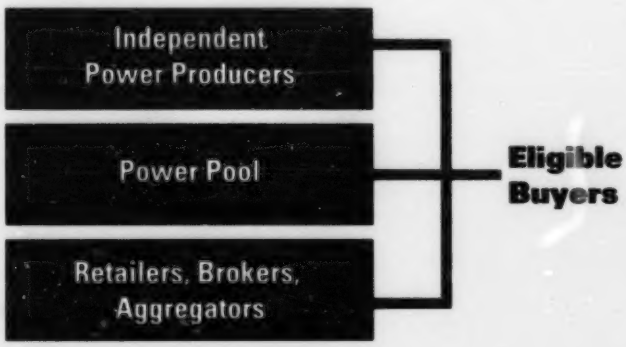
Information to help consumers shop wisely is available on the Customer Choice Web site – www.customerchoice.gov.ab.ca or from the Electricity Branch at the address listed on the back cover.

Section 6 - Direct Sales

The direct sales program, which started in September 1999, gives new market participants an alternative to exchanging energy through the Power Pool. It allows independent power producers to sell electricity directly to distribution utilities and some industrial and commercial consumers. Buyers participating in direct sales must be able to satisfy certain technical standards set out in provincial regulations and in the Power Pool rules. These include:

- *Having meters that accurately measure the amount of electricity consumed in each hour or portion of an hour.*
- *Being able to respond to direction from the System Controller to reduce consumption if required.*
- *Purchasing electricity based on a tariff that shows the cost of power purchases separately from other charges on the bill.*

Direct sales serves as a pilot program in preparation for full customer choice that starts on January 1, 2001.



Q. Who can sell using a direct sale?

A. Any independent power producer can sell directly to eligible consumers. Owners of generating units built under regulation (up to the end of 1995), or their affiliates, are not eligible to participate in direct agreements before July 1, 2002. This provision is designed to allow independent power producers to enter into firm contracts with customers. This in turn helps these producers to raise the capital necessary to build new generation.

Q. Will industry benefit through direct sales at the expense of other consumers?

A. No. All consumers are expected to benefit. Direct sales help independent power producers get the financing they need to build new power plants. These new plants increase the supply of power available to all Albertans.

As well, industry must pay its share of transmission and distribution costs, plus other system access charges no matter how it buys its energy. Direct sales must still be scheduled through the Power Pool operators. All costs incurred by the Pool for handling direct sales contracts are collected from the parties involved. Direct sales traders pay their fair share for use of the transmission and distribution system, as well as for any system services they use.

Q. Can customers buy electricity directly from the Power Pool?

A. In addition to buying electricity from independent power producers, customers can purchase electricity directly from the Power Pool if they meet certain conditions. These customers must have suitable metering and pay for electricity based on a tariff that separates the energy portion of their bill from other components. They must also satisfy **either** of the following two requirements:

- They must take their power directly from the high-voltage grid, or
- They must be able to respond to dispatch instructions to reduce consumption in response to a request from the system controller.

Section 7 - Municipalities

Like other wire owners, Alberta's municipalities can decide whether they wish to participate in the competitive market that will offer retail services to Albertans. They are under no obligation to participate in this market, which is open to any retailer.

Why must a municipality create a retail affiliate if it wants to offer retail services?

If municipalities or other wire owners decide to compete in the retail market, they will be subject to the same rules as other retailers. *See Introduction – What's New About the Marketplace.*

No retailer can have special access to information about the province's generation, transmission or distribution systems. For this reason, municipalities, like other wire owners, must create arms-length retail affiliates if they wish to compete for customers. This helps to ensure that the playing field is level for everyone.

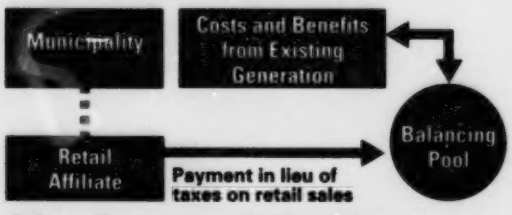
A level playing field means that rates will be determined through a competitive retail market. This open competition tends to put downward pressure on costs and rates, benefiting all consumers.

Why must municipalities pay an amount in lieu of taxes if they decide to compete in the retail electricity market?

If the municipally owned system sets up a retail affiliate, the affiliated retailer is required to pay an amount in lieu of income tax on retail operations. Without this provision, municipalities could have an unfair advantage over private-sector companies since municipalities do not pay income tax.

Municipal payments in lieu of tax would be made into a financial account called the balancing pool. Funds from this account will be distributed equitably to all Alberta consumers.

Payment by municipalities of an amount in lieu of taxes into the balancing pool helps to ensure a level playing field, thereby encouraging development of a competitive market that benefits consumers.



Municipally owned systems will pay an equivalent to income tax only on their retail operations in the competitive market. Municipalities will not pay any amount in lieu of income tax on revenues associated with their regulated services, such as the regulated rate option.

Can municipalities band together to buy power for municipally owned facilities such as arenas and municipal offices?

Yes. A group of municipalities, or any other consumers, can band together and tender a joint request for proposals from retailers to supply their energy services. The new competitive marketplace is designed to foster this type of efficient and cost-effective solution to power needs.

What are franchise agreements?

Franchise agreements are contracts between certain municipalities and either ATCO Electric or TransAlta Utilities. Under these agreements, the utilities pay municipalities a franchise fee in return for the exclusive right to construct, maintain and operate distribution systems serving the residents of the municipalities.

What happens to existing franchise agreements when customer choice takes effect?

Existing franchise agreements remain in effect when customer choice begins on January 1, 2001. The Electric Utilities Act and existing or planned regulations associated with the Act do not change these existing franchise rights.

The existing franchise agreements would continue to give either ATCO Electric or TransAlta Utilities the sole and exclusive right to construct, maintain and operate distribution systems within various municipalities. The Electric Utilities Act, however, overrides any exclusive rights to provide generation and sell electric energy. The Act opens generation and retail electric markets to full competition.

Section 8 - Rural Electrification Associations

Rural electrification associations (REAs) are cooperatives started in 1948 to serve the electricity needs of farms. REAs own the distribution wires that bring power to their members. Under the new electric industry structure, distribution wires become a "common carrier" for electricity, no matter which retailer buys and sells the power that is distributed on the wires.

Q What choices do REAs have under the Electric Utilities Act?

A REAs may remain wire owners and operate the wires themselves. *See Appendix A.* They may also contract these functions to other entities.

They may decide to set up arms-length retail affiliates and offer electricity services to consumers. Two or more REAs may also combine resources or aggregate to achieve greater economies of scale in purchasing electricity on behalf of their customers.

In these changes, REAs will be able to continue to serve their members and may expand to offer services to other consumers. REAs, however, will not have exclusive retail service rights for their members. That would not be compatible with the new system of customer choice that allows Albertans to choose their electricity suppliers.

Like municipalities and other wire owners, REAs must create retail affiliates if they wish to offer retail services other than the regulated rate option within their service areas. This ensures a level playing field among independent retailers and affiliated retailers.

REAs must also prepare distribution tariffs and file their tariffs for information with the Alberta Energy and Utilities Board. These tariffs will be charged to retailers for use of the wires owned by the REAs. REAs can file and prepare the tariffs on their own, appoint an agent to do it for them, or pool their efforts and file a joint tariff.

Q Will REA members benefit from the new electricity structure?

A Yes. REA members will be able to make the same choices as other Albertans about their electricity supplier and the kind of services they would like to receive. REA members, like other Albertans, will benefit directly and indirectly from the efficiencies and innovations of the competitive electricity marketplace.

Appendix A

Who's Who in Customer Choice

Consumers

Consumers will be able to choose their power suppliers in an open market. Alternatively, eligible consumers can take the regulated rate option from their existing supplier. Consumers will be able to choose their power supplier starting in 2000 and begin receiving these services on January 1, 2001. Home and farm consumers can receive the regulated rate option for up to five years. Eligible small industrial and commercial consumers can receive the regulated rate for up to three years.

Independent Retailers[3]

These entities provide retail services directly to consumers. They may operate anywhere within Alberta. They are not affiliated with the owner of any electric distribution system.

Affiliated Retailers

These entities are affiliated with the owner of an electric distribution system and provide retail services directly to consumers. Utilities, municipalities, rural electrification associations and any other owners of distribution systems must set up arms-length affiliates if they wish to compete in the retail market inside or outside their service areas.

Owners of Distribution Systems (Wire Owners)

These consist of two privately owned utilities (ATCO Electric Limited and TransAlta Utilities Corporation[4]) and eight municipalities (City of Edmonton—EPCOR, City of Calgary—ENMAX, City of Red Deer, City of Lethbridge, Town of Cardston, Town of Fort Macleod, Town of Ponoka and the Municipality of Crowsnest Pass and more than 100 rural electrification associations.

Wire Services Providers

Under the new structure, owners of electric distribution systems (local distribution utilities) must provide wire services or authorize other entities to become wire services providers on their behalf. Local distribution utilities (wire owners or authorized wire services providers) offer the regulated rate option, connect and disconnect customers, operate and maintain the distribution systems and information systems, and provide metering services. They also prepare the owner's distribution tariff.

Power Producers

Producers include utilities, importers and independent power producers. Power is produced primarily by generating units fired by either coal or natural gas or by heat produced in industrial processes (cogeneration). Hydroelectric units, diesel generators, plus wind turbines and other alternative methods also produce power.

Power Pool of Alberta

The Power Pool is the market through which electric energy is exchanged. Electricity prices are set every hour at the lowest price that brings in enough supply to meet demand. Producers sell power into the Pool and wholesalers and direct purchasers buy power through the Pool.

Power Pool Council

These independent individuals, with no material stake in the market, ensure that the Pool operates in the public interest as a fair, open and efficient market for power and that all market participants are treated fairly.

Market Surveillance Administrator

The administrator is responsible for monitoring anti-competitive behaviour in the market and making recommendations to correct such behaviour.

Transmission Administrator

The Transmission Administrator is the agency responsible for ensuring open and non-discriminatory access to the Power Pool by buyers and sellers. It sets system access rates and coordinates the overall operation of the transmission system.

Alberta Government Services

It works to foster a fair marketplace by providing timely, effective enforcement mechanisms to deter dishonest market practices, and encourage consumer awareness and self-reliance.

[3] Independent and affiliated retailers marketing directly to home, farm and small industrial and commercial consumers are licensed and bonded for the protection of consumers.

[4] At the time of publication, TransAlta had received approval from the Alberta Energy and Utilities Board to sell its distribution business to UtiliCorp Canada Corp. The completion of the sale by the two companies is pending.

Appendix B

What's What in Customer Choice

Cogeneration

The combined production of electricity and useful heat from a single energy source at industrial plants. The heat produced can be used in the manufacturing process and for general space heating as well as for driving turbines that generate electricity.

Distribution Tariffs

These are the rates charged by the owner of an electric distribution system or any entity acting on behalf of the owner to recover the costs of access to the transmission and distribution system operations that are not subject to competition. This includes costs associated with wires, billing, metering and information systems.

Electric Utilities Act

The enabling legislation setting out the framework for Customer Choice and other components of electric industry restructuring. The Act was passed in 1995 and amended in 1998.

Franchise Agreements

Contracts between certain municipalities and either ATCO Electric or TransAlta Utilities. Under some of these agreements, the utilities pay municipalities a franchise fee in return for the exclusive right to construct, maintain and operate distribution systems serving the residents of the municipalities.

Green Power

Electricity generated using renewable sources such as wind power, small hydro, landfill gas and biomass.

Kilowatt Hour

A measure of electric consumption. Ten 100-watt light bulbs burning for one hour would consume one kilowatt hour.

Local Distribution System

The system of wires and related equipment that distributes power to customers within a designated municipality or distribution area.

Regulated Rate

The rate that local distribution companies (wire owners or authorized wire services providers) must make available to eligible consumers to be charged for all electricity services, starting on January 1, 2001. It is designed for consumers who are not yet ready to make the transition to the new competitive market for electricity and related services. Eligible small industrial and commercial consumers can take the rate for up to three years; home and farm consumers are eligible for five years.

Time-of-Use Meters

These meters measure at specified intervals (between 15 and 60 minutes) the amount of electricity consumed in that period.

Transmission System

The system of high-voltage power lines and related facilities that link generating units and customer loads throughout the province.

Comments and Further Information

For more detailed information about electric industry restructuring, including topics discussed in this document, contact the Electricity Branch or visit its website at: www.resdev.gov.ab.ca/electric

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Outside Edmonton, call 1-800-232-7215

For general consumer information, contact the Consumer Information Centre or visit the Customer Choice website at: www.customerchoice.gov.ab.ca

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